

Idaho Legislative Audits
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DEQ – Drinking Water State Revolving Fund

Audit Report

Issued: April 3, 2006
Fiscal Year: 2005



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY DRINKING WATER STATE REVOLVING FUND

PURPOSE AND SCOPE. We have audited the financial statements of the Idaho Department of Environmental Quality, Drinking Water State Revolving Fund (DWSRF) for the fiscal year ended June 30, 2005, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine if the DWSRF's financial statements are materially accurate and reliable, and that it complied with laws and regulations affecting fiscal operations. The U.S. Environmental Protection Agency (EPA) requires a separate annual financial and compliance audit of the DWSRF.

CONCLUSION. We conclude that the DWSRF's financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on the DWSRF'S financial statements.

FINDINGS AND RECOMMENDATIONS. There are two findings and recommendations in this report, explained below.

FINDING #1. The accounting structure is unnecessarily cumbersome and inefficient. The prior audit noted that the Department used three separate funds¹ to account for the DWSRF's activities when one would suffice. The Department still uses three funds. One fund is used to record loan repayments; a second fund, which has a negative balance, records disbursements; and a third fund accounts for miscellaneous transactions, such as recording interest earnings. Also, the Department unnecessarily uses separate program codes for different types of loan transactions, leading to multiple codes for each loan. This makes accounting more difficult and weakens internal controls.

We recommend that the Department eliminate unnecessary funds and program codes.

FINDING #2. The accounting has errors and is not completed in a timely manner. In the prior audit, we noted several accounting errors and that the financial statements were not completed in a timely manner. This was again found to be the case. For example:

1. Some financial statement amounts did not agree with supporting documentation. In one instance, loan interest received in STARS did not agree with loan interest received in the loan accounting system.
2. Many cash transactions reported on the Statement of Cash Flows did not agree with the underlying amounts on the balance sheet and income statement, and adjustments were necessary.

We recommend that more than one person be trained to complete DWSRF's accounting, and that management provide more timely oversight and review. The Department should also generate accounting reports in a timely manner, complete timely reconciliations, and consider a new accounting system.

¹ The State accounting system separates some funds into fund details. A fund detail, like a fund, is a separate set of self-balancing accounts, and requires the same accounting effort as a fund, and in essence, is the same as a fund. For the purposes of simplification, "funds," as used in this memorandum, means both funds and fund details.

PRIOR FINDINGS AND RECOMMENDATIONS. The prior audit report contained one finding and recommendation about accounting errors and a cumbersome accounting system. This finding is closed and the issues repeated in Findings #1 and #2.

AGENCY RESPONSE. The Department has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY. The DWSRF is financed by grants from the U.S. Environmental Protection Agency (EPA) and State matching funds. The DWSRF is used to finance infrastructure needs of public water systems in order to achieve or maintain compliance with the Federal Safe Drinking Water Act requirements and to protect public health. The DWSRF operations began in fiscal year 1998, and the DWSRF's first loan was made in fiscal year 1999. The financial activity of the DWSRF for the fiscal year ended June 30, 2005 is summarized as follows:

Drinking Water State Revolving Fund
Statement of Net Assets at June 30, 2005

ASSETS:	
<u>Current Assets</u>	
Cash	\$4,316,227
Loans Receivable	815,236
Interest Receivable	364,807
Due from EPA	103,056
Due from State	<u>1,726,802</u>
Total Current Assets	<u>\$7,326,128</u>
 <u>Non-Current Assets</u>	
Loans Receivable	<u>27,135,654</u>
	<u>\$34,461,782</u>
 TOTAL ASSETS	
 LIABILITIES:	
<u>Current Liabilities</u>	
Miscellaneous Payables	<u>\$123,668</u>
	<u>\$123,668</u>
 TOTAL LIABILITIES	
 NET ASSETS:	
Unrestricted	<u>\$34,338,114</u>
	<u>\$34,338,114</u>
 TOTAL NET ASSETS	

Drinking Water State Revolving Fund
Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2005

<u>Operating Revenues</u>	
Interest Earned - Loans	\$780,825
EPA Operating Revenues	1,849,810
State Operating Revenues	<u>369,958</u>
Total Operating Revenues	<u>\$3,000,593</u>
<u>Operating Expenses</u>	
Program Administration	\$296,878
Program Set-Aside	<u>1,922,890</u>
Total Operating Expenses	<u>\$2,219,768</u>
Operating Income	\$780,825
<u>Non-Operating Revenues</u>	
Contributions from EPA	5,030,459
Contributions from State	1,006,097
Interest Earned on Fund Balance	<u>87,845</u>
Total Non-Operating Revenue	<u>\$6,124,401</u>
Changes in Net Assets	\$6,905,226
Net Assets - Beginning of Year	<u>27,432,888</u>
Net Assets - End of Year	<u><u>\$34,338,114</u></u>

OTHER ISSUES. We discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho Department of Environmental Quality, the U.S. Environmental Protection Agency, and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank the director, Toni Hardesty, and her staff for their assistance and cooperation given to us during this audit.

QUESTIONS CONCERNING THIS AUDIT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits
Thomas Haddock, CPA, CGFM, Managing Auditor

Report SA24605

For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.
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